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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

RG2-223

## FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ..... to .....

For the Quarter Ended January 31, 1992

Commission file number 0-14100

## SCIENTIFIC MEASUREMENT SYSTEMS, INC.

(Exact name of Registrant as specified in charter)

| TEXAS | 74-2048763 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 2209 Donley Drive, Austin, Texas | 78758 |
| (Address of principal executive offices) | (Zip Code) |

PROCESSED BY
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Registrant's telephone number, including area code: (512) ...

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for the shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

The number of shares outstanding of each of the registrant's classes of common stock, as of the latest practical date:

| Title of Class | Shares Outstanding as of February 29, 1992 |
|---|---|
| $0.05 Par Value Common Stock | 12,880,355 |

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## Condensed Balance Sheet
($000)

| | January 31, 1992 | July 31, 1991 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ 210 | $ 274 |
| Restricted cash | 100 | 100 |
| Trade accounts receivable, net | 746 | 982 |
| Costs and earned profits on long-term contracts in excess of related billings | 247 | 72 |
| Inventories, net | 321 | 358 |
| Prepaid expenses | 16 | 38 |
| Total current assets | 1,640 | 1,824 |
| Property and equipment, net | 1,171 | 1,236 |
| Other assets | 26 | 21 |
| | $ 2,837 | $ 3,081 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Notes payable to bank | $ 100 | $ 100 |
| Current installments of obligations under capital leases | 6 | 9 |
| Current installments of long-term debt | 42 | 40 |
| Accounts payable and accrued expenses | 514 | 544 |
| Billings in excess of related costs and earned profits on long-term contracts | 25 | - |
| Total current liabilities | 687 | 693 |
| Obligations under capital leases, less current installments | - | 2 |
| Long-term debt, less current installments | 716 | 738 |
| Total liabilities | 1,403 | 1,433 |
| Stockholders' equity: | | |
| Preferred stock of $0.15 par value; 2,000,000 shares authorized, none issued | - | - |
| Common stock of $0.05 par value, 40,000,000 shares authorized; 12,880,355 shares issued and outstanding | 644 | 644 |
| Additional paid-in capital | 8,307 | 8,307 |
| Deficit | (7,517) | (7,303) |
| Total stockholders' equity | 1,434 | 1,648 |
| | $ 2,837 | $ 3,081 |

The accompanying notes are an integral part of these financial statements.

## Condensed Statement of Operations
($000 except per share amounts)

| | Three Months Ended 1-31-92 | Three Months Ended 1-31-91 | Six Months Ended 1-31-92 | Six Months Ended 1-31-91 |
|---|---|---|---|---|
| Contract revenues: | | | | |
| Tomographic system sales | $ 716 | $ 454 | $ 1,294 | $ 1,093 |
| Service contracts | 113 | 291 | 147 | 524 |
| Total revenues | 829 | 745 | 1,441 | 1,617 |
| Direct contract costs | 524 | 392 | 992 | 966 |
| Gross profit | 305 | 353 | 449 | 651 |
| Operating costs: | | | | |
| Marketing | 99 | 63 | 182 | 177 |
| Research and Development | 34 | 32 | 80 | 58 |
| General and administrative | 164 | 177 | 373 | 480 |
| Total operating cost | 297 | 272 | 635 | 715 |
| Earnings (loss) from operations | 8 | 81 | (186) | (64) |
| Other expense (income): | | | | |
| Interest expense | 18 | 19 | 37 | 48 |
| Interest and other income | (4) | (10) | (9) | (18) |
| Other - net | 14 | 9 | 28 | 30 |
| Earnings (loss) before federal income taxes | (6) | 72 | (214) | (94) |
| Provision in lieu of federal income taxes | - | - | - | - |
| Net earnings (loss) | $ (6) | $ 72 | $ (214) | $ (94) |
| Weighted average shares outstanding | 12,880 | 12,880 | 12,880 | 12,880 |
| Net earnings (loss) per share | $ 0.00 | $ 0.01 | $ (0.02) | $ (0.01) |

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows
($000)

| | Six Months Ended 1-31-92 | Six Months Ended 1-31-91 |
|---|---|---|
| Cash flows from (used in) operating activities: | | |
| Cash received from customers | $ 1,541 | $ 2,787 |
| Cash paid to suppliers, subcontractors and employees | (1,550) | (1,916) |
| Interest received | 9 | 18 |
| Interest paid | (37) | (49) |
| Net cash flows from (used in) operating activities | (37) | 840 |
| Cash flows used in investing activities: | | |
| Capital expenditures | (2) | (15) |
| Net cash flows used in investing activities | (2) | (15) |
| Cash flows from (used in) financing activities: | | |
| Net borrowings from banks | - | (475) |
| Release of certificate of deposit pledged on borrowing from bank | - | 100 |
| Principal payments on long-term debt | (20) | (22) |
| Principal payments under capital lease obligation | (5) | (4) |
| Net cash flows used in financing activities | (25) | (401) |
| Net increase (decrease) in cash and cash equivalents | (64) | 424 |
| Cash and cash equivalents at beginning of period | 274 | 203 |
| Cash and cash equivalents at end of period | $ 210 | $ 627 |

(Continued)

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows, Continued
($000)

| | Six Months Ended 1-31-92 | Six Months Ended 1-31-91 |
|---|---|---|
| Reconciliation of net loss to cash flows from (used in) operating activities: | | |
| Net loss | $ (214) | $ (94) |
| Adjustments to reconcile net loss to cash flows from (used in) operating activities: | | |
| Depreciation and amortization | 62 | 75 |
| Change in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Accounts receivable | 236 | 972 |
| Retainage receivable | - | 326 |
| Inventory | 37 | (5) |
| Costs and earned profits on long-term contracts in excess of related billings | (175) | 87 |
| Prepaid expenses and other assets | 22 | 21 |
| Increase (decrease) in liabilities: | | |
| Billings in excess of related costs and earned profits on long-term contracts | 25 | (215) |
| Accounts payable and accrued expense | (30) | (327) |
| Net cash flows from (used in) operating activities: | $ (37) | $ 840 |

Disclosure of accounting policy:

For purposes of reporting cash flows, cash and cash equivalents include cash, interest bearing deposits, certificates of deposit and investment securities with less than a 30-day stated maturity.

The accompanying notes are an integral part of these financial statements.

## Notes to Condensed Financial Statements

(1) The accompanying condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. It is the opinion of management that all adjustments and eliminations necessary for a fair presentation of financial position and results of operations for such periods have been included, and that such adjustments and eliminations are only of a normal, recurring type. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed financial statements should be read in conjunction with the financial statements and accompanying notes contained in the Company's Annual Report on Form 10-K for the year ended July 31, 1991 as filed with the Securities and Exchange Commission.

During fiscal 1991 and the first half of fiscal 1992 the Company experienced losses due to low sales volume. Management believes it must take steps to increase revenues, either from system sales or other sources, to maintain positive cash flows from operations. Revenues during the first half of fiscal 1992 were not sufficient to generate positive cash flows from operations. Should revenues continue to be insufficient to generate positive cash flows from operations, further reductions in operating costs will be necessary in order to provide sufficient liquidity to meet the Company's working capital needs. These financial statments do not include any adjustments which may be associated with such reductions in operating costs.

(2) Earnings per share is calculated by dividing earnings by the weighted average number of common shares outstanding during each period.

(3) A significant portion ($250,000) of the Company's accounts receivable as of January 31, 1992 corresponds to a single contract which has been cancelled by the customer. See Note 7 to the financial statements contained in the Company's Annual Report on Form 10-K for the year ended July 31, 1991 as filed with the Securities and Exchange Commission.

(4) Inventories are classified as follows (in thousands):

| | January 31, 1992 | July 31, 1991 |
|---|---|---|
| Raw materials | $ 19 | $ 12 |
| Work in progress | 52 | 84 |
| Finished goods | 263 | 262 |
| Less: Reserve for obsolescence | (13) | - |
| | $321 | $358 |

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following tables set forth items from the Company's statement of operations as a percentage of total revenues and as a percentage change from the prior year period, for the three months and six months period:

**Three Months Ended January 31**

| | 1992 | | | 1991 | | |
|---|---|---|---|---|---|---|
| | Dollar Amount (000s) | % of Total Revenue | % Change from Prior Year | Dollar Amount (000s) | % of Total Revenue | % Change from Prior Year |
| Contract revenues: | | | | | | |
| Tomographic system sales | 716 | 86.4% | 57.7% | 454 | 60.9% | -76.6% |
| Service contracts | 113 | 13.6% | -61.2% | 291 | 39.1% | 334.3% |
| Total revenues | 829 | 100.0% | 11.3% | 745 | 100.0% | -62.8% |
| Direct contract costs | 524 | 63.2% | 33.7% | 392 | 52.6% | -71.3% |
| Gross profit | 305 | 36.8% | -13.6% | 353 | 47.4% | -44.5% |
| Operating costs: | | | | | | |
| Marketing | 99 | 11.9% | 57.1% | 63 | 8.5% | -67.0% |
| General and administrative | 198 | 23.9% | -5.3% | 209 | 28.1% | -28.4% |
| Total operating costs | 297 | 35.8% | 9.2% | 272 | 36.5% | -73.7% |
| Earnings from operations | 8 | 1.0% | -90.1% | 81 | 10.9% | -47.1% |
| Other expense (income): | | | | | | |
| Interest expense | 18 | 2.2% | -5.3% | 19 | 2.6% | -13.6% |
| Interest and other income | (4) | 1.0% | -60.0% | (10) | 1.3% | 150.0% |
| Other - net | 14 | 1.7% | 55.6% | 9 | 1.2% | -50.0% |
| Net earnings (loss) | (6) | 1.0% | -108.3% | 72 | 9.7% | -46.7% |

**Six Months Ended January 31**

| | 1992 | | | 1991 | | |
|---|---|---|---|---|---|---|
| | Dollar Amount (000s) | % of Total Revenue | % Change from Prior Year | Dollar Amount (000s) | % of Total Revenue | % Change from Prior Year |
| Contract revenues: | | | | | | |
| Tomographic system sales | 1,294 | 89.8% | 18.4% | 1,093 | 67.6% | -67.8% |
| Service contracts | 147 | 10.2% | -71.9% | 524 | 32.4% | 380.7% |
| Total revenues | 1,441 | 100.0% | -10.9% | 1,617 | 100.0% | -53.8% |
| Direct contract costs | 992 | 68.8% | 2.7% | 966 | 59.7% | -60.5% |
| Gross profit | 449 | 31.2% | -31.2% | 651 | 40.3% | -38.3% |
| Operating costs: | | | | | | |
| Marketing | 182 | 12.6% | 2.8% | 177 | 10.9% | -43.3% |
| General and administrative | 453 | 31.5% | -15.8% | 538 | 33.3% | -5.6% |
| Total operating costs | 635 | 44.1% | -11.2% | 715 | 44.2% | -18.9% |
| Loss from operations | (186) | 12.9% | 190.6% | (64) | 4.0% | -136.9% |
| Other expense (income): | | | | | | |
| Interest expense | 37 | 2.6% | -22.9% | 48 | 3.0% | 9.1% |
| Interest income | (9) | 1.0% | -50.0% | (18) | 1.1% | 5.9% |
| Other - net | 28 | 1.9% | -6.7% | 30 | 1.9% | 11.1% |
| Net earnings (loss) | (214) | 14.9% | 127.7% | (94) | 5.8% | -164.4% |

## Results of Operations

### Revenue

Revenues from tomographic system sales increased 57.7% from $454,000 in the second quarter of fiscal 1991 to $716,000 in the second quarter of fiscal 1992. This increase is due primarily to $437,000 of revenue recognized during the second quarter of fiscal 1992 under a contract to build a standard CT system for a large government contractor. Research and development revenues as well as maintenance and upgrade revenues during the second quarter of fiscal 1992 were $93,000 and $110,000, respectively, which are comparable to revenues reported in the second quarter of fiscal 1991.

Service revenues of $113,000 for the second quarter of fiscal 1992 reflect a 61.2% decrease over service revenues in the second quarter of fiscal 1991. This decrease is due in part to a large, non-recurring scanning contract which was completed in the second quarter of fiscal 1991.

### Gross Margin

Gross profit margin on total sales fell from 47.4% in the second quarter of fiscal 1991 to 36.8% in the second quarter of fiscal 1992. Although labor and material costs have remained stable over this period, changes in the Company's product mix have resulted in this decline in gross profit margins. The manufacture of standard products is expected to allow the Company to maintain satisfactory profit margins on system sales despite competitive pressures in the CT market. An increase in the services portion of the Company's revenue mix is also expected to result in stable gross profit margins through the end of the fiscal year.

### Other Operating Costs

Marketing costs as a percent of total revenue increased from 10.9% in the first half of fiscal 1991 to 12.6% in the first half of fiscal 1992. The Company is aggressively pursuing customers in the CT market in an effort to stimulate system sales. Additionally, the Company continues to explore new applications for its technology and new sources of revenue for its Scanning Services operations.

General and administrative costs fell from 33.3% of revenue in the first half of fiscal 1991 to 31.5% in the first half of fiscal 1992, reflecting management's emphasis on cost control in response to low sales volume. The Company continues to evaluate company-wide spending levels and plans to continue to reduce discretionary spending where appropriate.

### Backlog

At January 31, 1992 total contract backlog was $396,000, consisting of $98,000 for system sales, $52,000 for research and development contracts, $126,000 for maintenance and upgrades, and $120,000 for scanning services. This represents a decline in total backlog from $1,100,000 as of January 31, 1991. Because of the sophisticated nature of the Company's technology and the high cost of the Company's CT systems, discussions with potential customers leading to the sale of a system are typically long and complex. It is possible, despite the Company's emphasis on marketing, that the Company will receive no additional orders for system sales during the remainder of fiscal 1992.

## Liquidity and Capital Resources

### Cash Flow

Cash flows from operations were negative $37,000 for the first half of fiscal 1992, which is substantially below the positive cash flows from operations of $840,000 for the first half of fiscal 1991. Collection of retainages associated with system sales in fiscal 1990 account for the positive cash flows in the first half of fiscal 1991. Revenues during the first half of fiscal 1992 were not sufficient to generate positive cash flows from operations.

### Liquidity

As of February 29, 1992, the Company had a cash balance of $157,000 and accounts receivable of $581,000, of which $250,000 is associated with a government contract which was cancelled as discussed in Note 7 to the Company's Annual Report on Form 10-K for the year ended July 31, 1991 as filed with the Securities and Exchange Commission. These cash and receivable balances are the Company's primary sources of liquidity. The Company's working capital guarantee of $1,000,000 through the Export/Import Bank of the U.S. as well as the guarantee for a line of credit for $250,000 with a commercial bank have both expired under their own terms. Management believes it can successfully renew these credit facilities at such time as new orders for system sales are received.

During fiscal 1991 and the first half of fiscal 1992 the Company experienced losses due to low sales volume. Management believes it must take steps to increase revenues, either from system sales or other sources, to maintain positive cash flows from operations. In the event that the Company does not receive new orders for system sales, management expects revenues from service contracts to be sufficient to provide for the Company's working capital needs through the end of the fiscal year. As noted above, revenues during the first half of fiscal 1992 were not sufficient to generate positive cash flows from operations. Should revenues continue to be insufficient to generate positive cash flows from operations, further reductions in operating costs will be necessary in order to provide sufficient liquidity to meet the Company's working capital needs.

**Capital Expenditures**

Capital expenditures for the first half of fiscal 1992 were $2,000 which is substantially below capital expenditures of $15,000 during the first half of fiscal 1991. Consistent with the Company's overall spending control efforts, capital spending is expected to be minimal throughout the remainder of the fiscal year.

## PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

As of January 31, 1992, the Company was not a party to any pending lawsuits and was not aware of any such proceedings known to be contemplated by governmental authorities or others.

Item 2 - Changes in Securities

None

Item 3 - Defaults Upon Senior Securities

None

Item 4 - Submission of Matters to a Vote of Security Holders

None

Item 5 - Other Information

None

Item 6 - Exhibits and Reports on Form 8-K

a) Exhibits - None

b) Reports on Form 8-K - None

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCIENTIFIC MEASUREMENT SYSTEMS, INC.

by _____
Larry Secrest
President, Chief Executive Officer,
and acting Chief Financial and
Accounting Officer

by _____
George A. Edwards, Jr.
Vice President
Secretary - Treasurer

March 13, 1992

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 1992 Commission file number 0-11401

**SECURITY CHICAGO CORP.**

(Exact Name of Registrant as Specified In Its Charter)

| **Delaware** | **36-3236203** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **196 E. Pearson, Chicago, Illinois** | **60611** |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's telephone number, including area code **312-280-0360**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

**YES _X_ NO ___**

Indicate the number of shares outstanding of each the Registrant's classes of common stock, as of the latest practicable date: **221,170 shares** of common stock, Par Value $5.00 per share, at March 31, 1992

| Class | Outstanding at March 31, 1992 |
|---|---|
| Common Stock, par value $5.00 | 221,170 shares (excluding 23,603 shares held as treasury shares) |

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SECURITY CHICAGO CORPORATION
AND SUBSIDIARY

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SECURITY CHICAGO CORP. AND SUBSIDIARY
Unaudited
Consolidated Balance Sheets
(000)

| | Mar 31 1992 | Dec 31 1991 | Mar 31 1991 |
|---|---|---|---|
| ASSETS | | | |
| Cash and due from banks | $ 6,468 | $ 6,017 | $ 4,520 |
| Federal funds sold | 13,000 | 13,000 | 10,500 |
| Total cash and cash equivalents | 19,468 | 19,017 | 15,020 |
| Investment securities | 17,067 | 14,148 | 17,386 |
| Minority interest in banking operation | 1,451 | 1,397 | 1,207 |
| Loans, net of unearned discount and deferred loan fees | 34,985 | 34,752 | 39,367 |
| Allowances for loan losses | (401) | (394) | (386) |
| | 34,584 | 34,358 | 38,981 |
| Leasehold improvements and equipment, net | 333 | 308 | 348 |
| Accrued interest and other assets | 936 | 914 | 1,331 |
| | $ 73,839 | $ 70,142 | $ 74,273 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Deposits | | | |
| Noninterest-bearing | $ 14,485 | $ 14,572 | $ 12,916 |
| Interest-bearing | 51,753 | 48,537 | 54,467 |
| Total deposits | 66,238 | 63,109 | 67,383 |
| Demand note payable | 240 | 125 | 125 |
| Accrued interest and other liabilities | 1,146 | 665 | 792 |
| Total liabilities | 67,624 | 63,899 | 68,300 |
| Stockholders' equity | | | |
| Common stock, par value $5; 1,000,000 shares authorized; 240,000 shares issued | 1,200 | 1,200 | 1,200 |
| Surplus | 1,200 | 1,200 | 1,200 |
| Retained earnings | 4,220 | 4,129 | 3,859 |
| Treasury stock, at cost (23,603 & 18,830 shares in 1992 & 1991 respectively) | (405) | (286) | (286) |
| Total stockholders' equity | 6,215 | 6,243 | 5,973 |
| | $ 73,839 | $ 70,142 | $ 74,273 |

See accompanying notes.

SECURITY CHICAGO CORP. AND SUBSIDIARY
Unaudited
Consolidated Statements of Income
(000)

| | Three months ended March 31 1992 | 1991 |
|---|---|---|
| INTEREST INCOME | | |
| Interest and fees on loans | $ 825 | $ 1,055 |
| Interest on investment securities | | |
| U.S. Treasury securities | 110 | 149 |
| U.S. Agency and other obligations | 123 | 183 |
| State and municipal obligations | 41 | 52 |
| Interest on federal funds sold | 147 | 80 |
| | 1,246 | 1,519 |
| INTEREST EXPENSE | | |
| Interest on deposits | 588 | 791 |
| Interest on borrowed funds | 3 | 3 |
| | 591 | 794 |
| Net interest income | 655 | 725 |
| Provision for possible loan losses | 6 | 6 |
| | 649 | 719 |
| OTHER INCOME | | |
| Service fees | 182 | 117 |
| Income from minority investment | 65 | 40 |
| Other income | 24 | 42 |
| | 271 | 199 |
| OTHER EXPENSES | | |
| Salaries and employee benefits | 329 | 330 |
| Occupancy and equipment expenses | 140 | 149 |
| Advertising and public relations | 17 | 9 |
| Stationery and postage | 27 | 29 |
| Computer service fees | 35 | 41 |
| Other operating expenses | 132 | 150 |
| | 680 | 708 |
| Income before taxes | 240 | 210 |
| Applicable income taxes | 61 | 51 |
| Net income | $ 179 | $ 159 |
| Earnings per share of common stock based on daily weighted average shares outstanding | $0.82 | $0.72 |

See accompanying notes.

SECURITY CHICAGO CORP. AND SUBSIDIARY
Unaudited
Consolidated Statement of Changes
in Stockholders' Equity for Three Months Ended
March 31, 1992 and 1991
(000)

| | Common Stock | Surplus | Retained Earnings | Treasury Stock | Total Equity |
|---|---|---|---|---|---|
| BALANCE, DECEMBER 31, 1991 | $1,200 | $ 1,200 | $ 4,129 | $ (286) | $ 6,243 |
| Net income for three months ended March 31, 1992 | | | 179 | | 179 |
| Cash dividends paid | | | (88) | | (88) |
| Purchase of 4,773 shares of treasury stock | | | | (119) | (119) |
| BALANCE, MARCH 31, 1992 | 1,200 | 1,200 | 4,220 | (405) | 6,215 |

| | Common Stock | Surplus | Retained Earnings | Treasury Stock | Total Equity |
|---|---|---|---|---|---|
| BALANCE, DECEMBER 31, 1990 | $1,200 | $ 1,200 | $ 3,700 | $ (286) | $ 5,814 |
| Net income for three months ended March 31, 1991 | 0 | 0 | 159 | 0 | 159 |
| BALANCE, MARCH 31, 1991 | 1,200 | 1,200 | 3,859 | (286) | 5,973 |

See accompanying notes.

SECURITY CHICAGO CORP. AND SUBSIDIARY
Unaudited
Consolidated Statements of Cash Flows
(000)

| | Three months ended March 31, 1992 | 1991 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | $ 179 | $ 159 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for depreciation and amortization | 28 | 43 |
| Provision for loan losses | 6 | 2 |
| Accretion of investment securities, net of premium amortization | 5 | (54) |
| Equity income in unrelated bank holding company | (54) | (30) |
| (Increase) in interest receivable | (17) | (8) |
| Increase in interest payable | 122 | 66 |
| Increase in deferred loan fees | 0 | 9 |
| (Increase) decrease in other assets | 137 | (27) |
| (Decrease) in other liabilities | (73) | (43) |
| Total adjustments | 154 | (117) |
| Net cash provided by operating activities | 333 | 53 |
| Cash flows from investing activities | | |
| Proceeds from sales/maturity of invest.securities | 1,500 | 1,655 |
| Purchases of investment securities | (3,993) | 0 |
| Net decrease in loans made to customers | 103 | 1,305 |
| Purchases of equipment | (25) | (10) |
| Net cash provided by (used in) investing activities | (2,415) | 2,950 |
| Cash flows from financing activities | | |
| Net increase in demand deposits, Now & Savings | 4,413 | 3,521 |
| Net decrease in Cerficates of Deposit | (1,305) | (1,010) |
| Cash dividends paid | (88) | 0 |
| Net cash provided by (used in) financing activities | 3,020 | 2,511 |
| Net increase (decrease) in cash & cash equivalents | 451 | 5,578 |
| Cash and cash equivalents at beginning of quarter | 19,017 | 9,442 |
| Cash and cash equivalents at end of quarter | $ 19,468 | $ 15,020 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during year for: | | |
| Interest on deposits and other borrowings | $ 591 | $ 728 |
| Income taxes | $ 61 | $ 121 |

See accompanying notes.

**SECURITY CHICAGO CORPORATION AND SUBSIDIARY**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(UNAUDITED)**

**Note 1.** Security Chicago Corporation ("the Corporation") is a one bank holding company which owns 100% of the voting stock of First Security Bank of Chicago ("The Bank") a state chartered commercial bank located in Chicago, Illinois. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normally re-occurring items) necessary to present fairly Security Chicago Corporation's financial position as of March 31, 1992 and December 31, 1991 and March 31, 1991 and the results of its operations and cash flows for the periods ended March 31, 1992 and 1991 and changes in stockholders' equity for the three month periods ended March 31, 1992 and 1991.

The results of operations for the period ended March 31, 1992 are not necessarily indicative of the results to be expected for the full year.

The financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual financial statements and notes.

**Note 2.** Minority interest in banking operation represents a 20% interest in the outstanding shares of First State Bancorp of Princeton, Illinois, Inc., ("Princeton") a multibank holding company of First State Bank of Princeton and First Bank & Trust Company of Gridley, Illinois.The Corporation utilizes the equity method of accounting for this investment. The following is selected consolidated information of Princeton.

| | 1992 | 1991 |
|---|---|---|
| Assets | $120,033 | $108,828 |
| Liabilities | 112,829 | 102,771 |
| Stockholders' Equity | 7,204 | 6,057 |
| Net Interest Income | 1,030 | 840 |
| Income before extraordinary item and income taxes | 416 | 241 |
| Extraordinary item - tax benefit realized from utilization of net operating loss carryforward | - | 74 |
| Income Taxes | 92 | 74 |
| Net Income | 324 | 241 |

**Note 3.** First Security Bank of Chicago has letter of credit commitments totaling approximately $2.6 million as of March 31, 1992.

**SECURITY CHICAGO CORPORATION**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**
**FINANCIAL CONDITION AND RESULTS OF OPERATION**

Consolidated net income of the Corporation totaled $179,000 or $0.82 per share and $159,000 or $0.72 per share for the three months ended March 31, 1992 and 1991 respectively. The $20,000 increase of net income in 1992 iss approximately 12.5% over the 1991 net income. Several significant factors led to the change in net income. In general, fee income and operating expenses reflected favorable changes, while net interest income changed unfavorably.

Net interest income totaled $650,000 compared to $725,000 in 1991. This $70,000 reduction is mostly attributable to a lower level of average earning assets during 1992. On average the loan and investment portfolios were approximately $3.1 million lower during 1992 than 1991. This is a direct result of declining loan demand that was experienced throughout the last six months of 1991. This trend is not expected to continue. Lower levels of interest rates have caused a rise in loan demand during March and April of 1992. Interest rates on earning assets and interest bearing liabilities were substantially lower in 1992 than 1991 as a result of movements in the general level of interest rates nationally. As can be seen in the chart below, the effect of changes in interest rates had relatively little effect upon the Corporation's net interest income.

Favorable (Unfavorable) Changes In Net Interest Income
In Thousands

| | Three Months 1992 over 1991 | | |
|---|---|---|---|
| Daily Average Balance | Volume | Rate | Total |
| Earning Assets | $(70) | $(212) | $(282) |
| Interest Bearing Liabilities | 8 | 204 | 212 |
| | $(62) | $ (8) | $(70) |

Other income increased by $72,000 or 36% in 1992 compared to 1991. Approximately $15,000 of this increase is attributable to improvements in the earnings on the minority investment in Princeton. The other $57,000 improvement in other income is attributable to retail banking fee increases established in the third quarter of 1991 and the inauguration of mortgage banking activity during the fourth quarter of 1991.

Total other expenses declined by $28,000 or 4.% during 1992. Of this amount $15,000 reflects the reduced useage by the Bank of consultants. During the first quarter of 1991 the Bank had engaged consultants in connection with a then pending merger transaction. Useage of consultants declined during the balance of 1991 and 1992.

The Corporations assets approximated $74 million on March 31, 1992 and 1991. While total assets remained relatively unchanged, there were changes in the composition of assets and liabilities. The Corporation's liquidity increased from March 31, 1991 when cash and cash equivalents totaled $15 million to $19 million at December 31, 1991. This level of liquidity remained fairly constant during 1992 and is directly related to weak loan demand discussed above. Total loans declined by approximately $4 million between March 31, 1991 and March 31, 1992 largely as a result of customers refinancing existing mortgage debt with long term mortgage loan products that the Corporation did not offer.

The Corporation's allowance for loan losses totaled $401,000 as of March 31, 1992 or 1.15% of net loans outstanding compared to $386,000 or .98% as of March 31, 1991, and $394,000 or 1.13% as of December 31, 1991.

Total deposits approximated $6 million as of March 31, 1992 and are relatively unchanged from the March 1991 level and up $3 million from December 31, 1991. Deposits declined throughout the last half of 1991 in line with the nationwide flow of pounds out of banking deposits into money market funds offered by investment banking concerns. This trend hass abated during 1992 and the Corporation has experienced growth of approximately $3 million in deposits in the current year.

The Corporation's equity capital grew to $6.2 million at March 31, 1992 compared to $5.9 million at March 31, 1992. As of March 31, 1992 the Corporation's primary capital equaled 8.9% which compares favorably with the 8.4% primary capital to asset ratio at March 31, 1991.

**Part II** **Other Information**

Item 6. Exhibits and Reports on Form 8-K.

a. Exhibits - none
b. Reports on Form 8-K - none

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SECURITY CHICAGO CORP.**

Robert P. Fahey
Chief Executive Officer
May 14, 1992

Sarah G. O'Sullivan
Chief Accounting Officer
May 14, 1992